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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 002418

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SUBJECT: PART I: WHAT DOES A LIBERAL PARTY VICTORY MEAN FOR  
THE HONDURAN ECONOMY AND U.S. ECONOMIC INTERESTS?

REF: TEGUCIGALPA 1993 AND PREVIOUS

Classified By: Economic Chief Patrick Dunn for reasons 1.4 (b) and (d).

1. (C) Summary: As of early morning on November 30, exit polling indicates an electoral victory for Liberal Party presidential candidate Manuel "Mel" Zelaya Rosales. While we await a formal announcement from electoral authorities, this is the first of three cables that assess Zelaya's economic platform and likely impacts on U.S. interests. The Zelaya platform is a remarkably orthodox vision for economic growth. Its calls for rational energy policies, agricultural diversification, re-energizing mining and forestry, improving infrastructure, and taking full advantage of CAFTA are each appropriate goals that also mirror U.S. interests. Zelaya's gentleman's agreement with the IMF and unambiguous calls for fiscal discipline are sine qua nons for future macro stability, and his endorsement of decentralization, anti-corruption, improved efficiency and competitiveness are like music to our ears. Some proposals remain vague (mining and telecomms) and some troubling (land reform, fuel taxes). Post will watch closely how the new administration seeks to balance foreign exchange inflows, exchange rates, interest rates, and liquidity concerns -- perhaps the pre-eminent macroeconomic concern facing the new administration. Finally, Post is encouraged to see Zelaya's platform adopt the Monterrey Consensus position that ultimately Honduras itself is responsible for implementing the reforms necessary to take full advantage of globalization and lay the foundations for sustainable economic growth. End Summary.

What a Zelaya Administration Means for the U.S.  
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2. (C) What is a Zelaya presidency likely to mean for the Honduran economy, and for U.S. economic policy interests? Despite having a party president (Patricia Rodas) with a checkered, fellow-traveler past and who is prone to revolutionary rhetoric, Zelaya's Liberal Party economic platform holds few or no obvious items that threaten U.S. national economic interests. His endorsement of the IMF deal, CAFTA, MCC, and an emphasis on poverty reduction all fit squarely within established priorities. His straightforward recognition of GOH responsibility for its own development is a fitting prologue to productive future engagement on technical assistance and other aid programs. Zelaya's calls for anti-corruption, juridical security, and open competition will be crucial to promoting investment. If he follows through on his word in these areas, the resulting improvements in investment climate will be both striking and long-overdue.

3. (C) Zelaya's emphasis on infrastructural improvement should provide new business opportunities for U.S. firms; his professed free-market orientation could provide trade opportunities; and any policies he implements that improve conditions for domestic investors will also benefit potential U.S. investors. Now for the bad news: Unfortunately, all of the above will likely be shelved for six months or more, while the new administration gets itself organized. If personnel turnover and political patronage are too extensive, key GOH institutional and technical expertise could be lost, setting Honduras' progress back by years. Finally, a failure to adopt these policies, or worse, any backsliding into discredited, state-interventionist policies of the past would likely spook investors and stall growth. Post does not see this as likely, but will stay in close contact with the Zelaya transition team.

Zelaya's Economic Platform  
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4. (U) Zelaya's platform (known generically in Honduras as the "Plan de Gobierno" and, in Zelaya's case, titled the "Vision of Citizens' Power" -- available at [www.melzelaya.com](http://www.melzelaya.com)) includes over 14 pages of economic policy statements, many of which have been previewed by Post in reftels. The economic platform highlights job creation and

macroeconomic stability as a Zelaya administration's key goals. Job creation would be pursued through: support to small and medium businesses; support for the forestry sector; support for industry; diversification of the maquila (light assembly) sector; promotion of tourism; promotion of mining; and modernization of infrastructure. On macroeconomic issues, the Zelaya platform focuses on exchange rate stability; fiscal discipline; control of inflation; the financial sector; energy policies; and trade and investment promotion.

15. (SBU) Zelaya's platform calls for consolidating the economic reforms and policies that have spurred economic growth, while also seeking to extend the benefits of that growth to a broader segment of the population. This overarching pair of goals is consistent with what senior Zelaya campaign officials have told Post over the last six months. The platform language, taking an unfortunate (though brief) detour into the social-engineering rhetoric of the old left, says "The goal (of this vision) is to create a new Honduran citizen: one who is more economically productive; more socially involved; more participatory, responsible, and tolerant in political matters; more respectful of human rights and therefore more peaceful in his relation with his fellow man; more conscious of his cultural identity; and proud to be Honduran."

16. (U) Rhetoric aside, the specifics of the platform reveal an acute appreciation for the urgent need for microeconomic policies that deliver the benefits of recent macroeconomic reforms to the average Honduran. Zelaya calls for: improved market intelligence to allow the private sector to respond both to market opportunities and technological innovation much more rapidly; creation of 110,000 new full-time jobs annually through expansion of the small and medium-sized business sector; and increased domestic production in areas such as mining, tourism, forestry, and value-added agriculture. The plan explicitly recognizes the need for expanding available credit (including micro-credit) to support both small-hold farming and small and medium business generation. The plan also focuses special attention on programs to assist women and youth to start their own businesses.

17. (SBU) Comment: One of Zelaya's key challenges will be to manage expectations from the various constituencies that supported him during his campaign. In the campaign he made several expensive promises and will have to find some way to implement them in an affordable way. As newcomers with a reputation for weak management and sometimes populist rhetoric, the Zelaya faction of the Liberal Party will have to pay careful attention to this, to ensure it does not undermine an otherwise largely responsible policy platform. End Comment.

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